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Special Report: Cable Tv

Kay Koplovitz

Taking USA Cable from promises to profits

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Cover Story

Kay Koplovitz

A cable innovator whose legendary bouts at the negotiating table foresaw a revolution

By Craig Reiss

While Muhammad Ali was toe-to-toe with Smokin' Joe Frazier, bringing the Thrilla in Manila to a knockout close in 1975, Kay Koplovitz was stateside thrilling to the marvel of Home Box Office's breakthrough satellite transmission of the fight from the Philippines. As the lights went out for Joe Frazier, the dawn was rising on cable tv.

Koplovitz at that time was already a veteran of the fledgling cable tv field. She had graduated several years earlier from Comsat and had paid her dues in the cable trenches while with UA/Columbia. There she handled problems related to cable franchise applications.

On her own as a communications consultant, Koplovitz had done some publicity for HBO's coverage of the Ali-Frazier classic, and on the night of the fight she assembled a select group of cable industry and government leaders to witness the live cablecast from the other side of the globe.

With each jab and straight right Ali threw, Koplovitz watched as the wonder of satellite communications captured the imaginations of the cable leaders. Almost immediately after the fight, major cable systems operators—Time Inc.'s American Television Corp., TeleCommunications Inc. and UA/Columbia among them—ordered receiving dishes for their franchises.

"That's what I had been waiting for," Koplovitz recalls. She had written her master's thesis on the inevitable coming of age of the communications satellite. She had gone to work at Comsat because she knew the satellite age was just around the corner. Then Ali kayoed Frazier. The wait was over.

Bob Rosencrans, who then headed UA/Columbia and who had given Kay Koplovitz her start in cable, was one of those leaders inspired by the Ali-Frazier transmission. He had cable systems with 12 or 24 channels, and precious little programing to offer his viewers besides HBO and local broadcasting stations. But he had a brainstorm.

HBO had the contract to carry Madison Square Garden's sports events, but Rosencrans figured it wouldn't renew the deal. HBO was moving toward becoming a motion-picture-dominated service, and regional sports programing—even with the Garden's marquee value—probably would play no role in its new format. What if UA/Columbia took over the Garden contract and set up a network to carry the events to cable systems such as his?

Rosencrans called Koplovitz.

"I said, 'Yeah, let's do it,' and when HBO did pass on renewing with Madison Square Garden, [Garden president] Joe Cohen and I made the deal," says Koplovitz.

In 1977, that deal gave birth to another new concept, the basic cable network. And USA Network was the first of its kind. Then, as now, Kay Koplovitz, the childhood speed skater from Milwaukee turned communications technology expert, was its president.

If for no other reason, Koplovitz would be noteworthy as the only cable network chief (other than, perhaps, Ted Turner) who has survived nine years of tumultuous cable tv history. But Koplovitz, like Turner, has done more than survive.

Kay Koplovitz started USA Network in 1977, and besides Ted Turner is the only person to head a basic cable network for nine straight years. She began USA as a mom-and-pop operation, carrying mostly live sports events, then steered it through a transition period when it switched predominantly to entertainment. (Photo by Arnold Adler)

She and her network weathered the onslaught of giant cable competitors such as CBS, ABC, RCA and Westinghouse, who rushed in with grand ideas and then either folded their tents or refashioned their visions. During the period when cynics were calling cable little more than a vacuous hype factory, she steered USA Network through another wrenching period. When sports became economically prohibitive, she led USA into entertainment. She lasted through the sale and resale of the network and has remained at its helm during the last four years, with USA owned by Paramount, MCA and Time Inc. —partners in USA Network and rivals in everything else. She held their trust even during the extremely lean years of the early 1980s, when cable revenues never came close to covering the cost of rapid expansion. And she has emerged as the leader of a viable and growing business.

USA Network is privately held, and Koplovitz would not discuss its revenues or profitability—though it is indeed turning a profit. But there are other measures that tell of USA Network's success. It has some 6,500 affiliates. It counts among its clients most of the major advertisers in the country. And for the past 18 months, A.C. Nielson Co. measurements show it is the most-watched basic cable network.

It wasn't always like that.

"I remember when we introduced USA Network in 1977 at a cable convention in Chicago," she says. "I'm sure a number of people thought this is a crazy idea, taking the Garden events out of the Garden. But playing the Garden was big time, so it actually was a terrific sales and marketing niche to be able to say we had live events from the Garden."

Madison Square Garden events, which included New York hockey and basketball along with boxing matches, filled in the USA Network prime time schedule in the winter and spring, but the summer lineup was vacant. In one of her first programing moves as a network chief, Koplovitz struck a deal with the New York Yankees to begin carrying their games nationally.

"We actually carried a game in 1978," she says. "It was a Yankees-Boston Red Sox game, and it lasted something like 17 innings. It was a great game, as exciting as one could ever hope for, but it was our first venture outside the Garden and we were totally unprepared to deal with it. It was all very exciting, though, until the next day when [Major League Baseball commissioner] Bowie Kuhn called."

Kuhn had been alerted that a Yankee game was being cablecast across the country, a violation of league rules. Kuhn told Koplovitz that the Yankees had no right to sell her the game and have it carried outside the New York area. Only the league could make that deal, he said.

"So, not wanting to miss a beat, I said to Kuhn, 'Well, then give me the contract for all of Major League Baseball.' And what had been perceived as a blatant violation of league rules is what led us to make a deal with Major League Baseball," she says.

Turning adversity into opportunity would remain a constant theme in Koplovitz' career, especially during the first four years when USA Network's prime time fare was predominantly live sports programing. She was trailblazing then. She also demonstrated what would become known as her benchmark strength, negotiating. Koplovitz has an uncanny knack for sizing up the marketplace and an entrepreneur's eye for finding ways to create something that did not exist before.

Within months of inking the baseball deal, Koplovitz and USA Network also had exclusive cable contracts with the National Basketball Assn. and the National Hockey League.

"Kay's sports negotiations are legendary," says Jeff Lawenda, who was sales and programing chief of USA Network in the early days and now is co-founder of Chelsea Communications in New York. "She had an incredible sensitivity to the supply and demand of the marketplace. She knew where to start a negotiation and where to end it, what she wanted to come away with. Sports rights are extremely difficult to negotiate, but Kay made everybody walk away smiling, even though they knew they gave up something."

In the baseball deal, Koplovitz was quick to realize MLB's own marketing dilemma, and was just as quick to calculate how an upstart cable network could fit into solving the problem.

"Baseball had been struggling at that time with how to equitably distribute the games, particularly outside the team's territory," she says. "Before cable, if you lived outside a major city, you did not receive baseball on tv except for the game of the week."

Putting the games on cable would bring baseball to the hinterlands, especially since few major urban markets were wired yet. And since cable still had limited distribution, baseball did not have to worry about overexposure. The fit was perfect, and baseball became USA Network's most popular programing.

The next target was the NBA.

"She had an incredible sense for what the industry was, and what it might become," says NBA commissioner David Stern, who in 1979 negotiated the basket-

Special Report

Industry works to improve fuzzy image

By Don Veraska
and Len Strazewski

Even though it is more than 20 years old, cable tv still is trying to focus in on its niche in communications and advertising. Revenues and geographic reach continue to grow, but cable tv's over-all image is fuzzy.

One reason for the image problem is cable's major market penetration, which lags behind the national average.

By the end of 1985, cable tv will have reached an estimated 39 million households, or 45.7% of all households having tv sets. But in the top 10 U.S. tv markets, nearly 70% of the 7.4 million households don't have access to cable.

Despite these difficulties in major markets, the industry's annual revenues are estimated to be $8.3 billion in 1985 and projected to top $16 billion by 1990, according to industry observers.

Ad revenue, according to industry newsletter "Cable TV Advertising," published by media consulting company Paul Kagan Associates, Carmel, Cal., also is growing, up 32% to about $735 million in 1985. By 1990, ad revenues are projected to exceed $2.7 billion.

However, ad agencies still view cable as a second-class buy. Major agencies generally spend no more than 5% of their media budgets on cable buys and frequently less, says Ronald Kaatz, senior vp and director of media concepts at J. Walter Thompson USA in Chicago.

"The bread and butter medium is still broadcast television," he says, "and when broadcast network prices are soft, cable is a tough sell to media buyers."

Agencies, however, are using cable more for clearly targeted approaches, he says. "We are using cable either for a different creative approach or to fill in audience deficiencies."

Cable penetration may be low in major markets, but frequently the areas that are penetrated are affluent suburbs that make good target audiences, Mr. Kaatz says.

Bob Alter, president of the Cabletelevision Advertising Bureau, Washington, agrees. "Many advertisers recognize that much of an area's real buying power is in its suburbs, so cable advertising has been growing at pretty close to expectations.

"However, as cable further penetrates center cities of the major markets, it can only be a plus," he says.

Of the top 10 tv markets in the U.S., six remain partially or totally uncabled. They are New York, Los Angeles, Chicago, Philadelphia, Detroit and Washington. Cost is one reason these major urban areas lag behind in providing cable. Paul Kagan Associates estimates that installing

(Continued on Page 16)

Don Veraska is a free-lance writer. Len Strazewski coordinated this Special Report.

Image

(Continued from Page 15)

the 27,900 miles of wiring to connect the homes in major uncabled urban areas would cost $3 billion.

Another reason dates to cable's beginning. The original intent of cable was to transmit commercial broadcast tv service —programs from the big cities— to isolated areas that could not receive tv signals, either because of their distance from transmitters or topography.

Then, as cable expanded, service went first to the wealthier suburban areas in which cable operators saw greater profit potential.

The cities lagged behind these other areas in cable construction both because of the long and often politically complicated process of awarding franchises worth millions of dollars and because underground construction, often necessary in downtown areas, was far more expensive.

When contracts were awarded, winning applicants often sought major contract concessions, resulting in time-consuming bargaining or litigation.

Statistics on cable coverage for metropolitan areas can be deceiving because measurements often include heavily cabled suburbs. In yet-to-be-cabled Washington, for instance, the 27% penetration figure includes suburban Maryland and Virginia, according to the CAB.

Here's a status report on the availability of cable in the top 10 U.S. tv markets, according to the research of Paul Kagan Associates, the CAB and others.

New York

Much of Manhattan has been served by cable since 1970, but construction has just begun on Warner Amex Cable Communications systems in Brooklyn and Queens.

Two Manhattan franchises rank among the top 30 systems in the nation, according to *CableVision*, a Denver-based trade publication. American Television & Communications Corp.'s Manhattan franchise has about 207,000 subscribers, and the Group W Cable franchise has about 100,000.

Litigation continues to hold up construction in the Bronx and Staten Island, although contracts have been awarded to CATV Enterprises and Manhattan Cable.

Cable has a 38.3% penetration in the New York designated market area as of July, according to the CAB. Long Island is a big cable market and one local franchise, Woodbury-based Cablevision Systems Development, is the nation's second largest system with more than 241,000 subscribers, according to *CableVision*. Another local franchise from Viacom Cablevision, based in Central Islip, has about 100,000 subscribers.

Los Angeles

In the Los Angeles-Palm Springs market, penetration was 35.8% in July, the CAB reports.

However, the city's auction process, designed to force vendors, including Falcon Communications with more than 88,000 subscribers and Valley Cable TV with about 56,000 subscribers, to provide service to uncabled areas, was thrown out early this year by a federal appeals court in a precedent-setting decision, according to Kagan.

The case, originally brought by Preferred Communications, a frustrated franchise seeker, was appealed to the U.S. Supreme Court, which has agreed to hear the case. In the meantime, several areas of the city, including Watts and other low-income areas, remain uncabled.

Chicago

After much political maneuvering and the collapse of several locally financed companies, construction has begun in four of five franchising areas.

Two areas are operated by Group W Cable of Chicago and three other area franchises are held by local companies with investment from TCI. Some 50,000 homes now have cable service for about 25.8% penetration in the dma as of July.

Full service, however, is several years away. Cable construction has yet to begin in the high-rent district fronting Lake Michigan after Continental Cablevision sold its interest in a local franchise holder to Tele-Communications last January.

Philadelphia

Although contracts have been signed by the four cable franchisees, Greater Philadelphia Cablevision, Wade Communications, Rollins Cablevision of Philadelphia and Comcast Cable of Philadelphia, construction won't begin until March or April, according to the city's cable administrator Vince Costello.

However, the area surrounding the city is a strong cable market with 46.4% penetration, according to the CAB.

San Francisco

San Francisco's hilly terrain necessitated construction years ago, making the dma one of the nation's most heavily cabled with a 47.7% penetration, according to the CAB. San Francisco's largest franchise, Viacom, has about 89,000 subscribers. No new wiring is planned.

Boston

Some subscribers are being served and construction is under way in other areas even though the cable operator, Cablevision, continues to negotiate.

As with other major markets, however, the subburbs are strong and cable has a 44.7% penetration in the area. Warner Amex's operation in Malden, Mass., has more than 63,000 subscribers, *CableVision* reports.

Detroit

In 1983, Barden Communications was awarded the Detroit franchise, but the cable company continues to try to put together a financial package, and constuction has yet to begin. When including the suburbs, cable has a 34.4% penetration, according to the CAB.

Dallas-Fort Worth

Warner Amex Cable sold its 5-year-old dual-cable system in Dallas to Heritage Communications in June, but the system's coverage remains sparse, at some 25%, with about 80,000 subscribers. Some construction remains in Fort Worth, served by Sammons Communications, which has about 59,000 subscribers.

The CAB places cable penetration in the Metroplex at 38.8%.

Washington

A 54-channel system to be operated by a local group, District Cablevision, is expected to begin construction next spring. Completed wiring of 250,000 houses is expected in five years.

Tele-Communications Inc., the nation's largest cable company with about 3.7 million subscribers in the U.S., is a majority financial partner in the project, but operating control will remain with the local company.

Houston

Houston has largely completed its two-franchise system, awarded five years ago to Storer Cable Communications and Warner Amex.

The larger Warner Amex franchise ranks sixth among cable systems nationally with about 185,000 subscribers, according to *CableVision*. The smaller franchise ranks out of the top 100.

Total cable penetration for the dma is 41.7%, according to the CAB.

The 11th market

Cleveland, which slipped a notch in 1985 to become the nation's 11th largest tv market, finally has awarded a bid to a local cable group, North Coast Cable, but the city still is negotiating a final contract and seeking financing. It will take several years, at least, before any substantial cable service begins.

However, the suburbs and Akron are strong cable markets and total area penetration is 47.5%, according to the CAB.

The slow but steady gains in major market penetration should yield corresponding gains for the cable industry.

Top 10 cable networks

	Projected 1985 ad revenues (millions)		Projected avg. 1985 subs. (millions)
1	1. WTBS 165.0	1	1. ESPN 36.9
2	2. MTV: Music Television 83.0	2	2. WTBS 35.5
3	3. ESPN 72.0	3	3. CNN 34.6
4	4. CNN 56.0	4	4. USA Network 30.5
5	5. USA Network 49.0	5	5. CBN Cable Network 29.0
6	6. CBN Cable Network 42.9	6	6. MTV: Music Television 26.4
7	7. The Nashville Network 28.0	7	7. Lifetime 25.8
8	8. Lifetime 26.0	8	8. Nickelodeon 24.8
9	9. WGN 13.0	9	9. The Nashville Network 23.5
10	10. Financial News Network 10.5	10	10. Financial News Network 19.8

Source: Paul Kagan Associates

All in the family

Household incomes $50,000 or more subscribing to cable: **50.7%**
Household incomes $20,000 to $24,999 subscribing to cable: **36.7%**

Households of 1 person subscribing to cable: **28.5%**
Households of 3 or 4 people subscribing to cable: **44.4%**

Households with children 6 to 11 years subscribing to cable: **41.0%**
Households with children 12 to 17 years subscribing to cable: **45.8%**

Source: Simmons Market Reasearch Bureau

Can cable connect in the city?

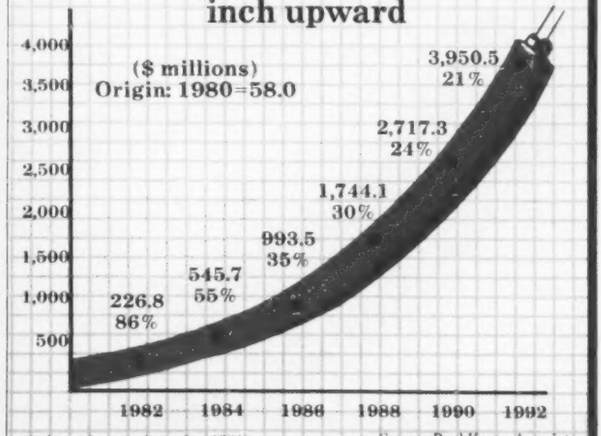
White people subscribing to cable: **41.6%**
Black people subscribing to cable: **28.7%**

Metro central city subscribing to cable: **37.2%**
Metro suburban subscribing to cable: **41.0%**

Non-metro subscribing to cable: **41.0%**

Source: Simmons Market Research Bureau

Cable ad revenues inch upward



Estimated projections after 1984. Source: Paul Kagan Associates

Spot cable hopes to connect with interconnects

By Kevin Brown

If you're hot, you're going to sell spot. That's a tv industry truism.

By that measure, though, cable tv is cold. Spot advertising sales have been a weak link in cable advertising, representing 15.7% of the $545 million spent on all cable advertising in 1984.

Industry executives say spot sales, which make up slightly more than 1% of the $8 billion in total cable revenues, should be 5% of revenues, and they have taken steps to reach that goal.

These steps include consolidating more local systems into interconnects, which permit local ad insertion on network feed-ins; developing local market studies to more accurately gauge cable viewership, and stepping up trade promotion.

Spot cable ad sales have not been completely stagnant, however. In 1984, they jumped to $85.7 million for a 70% increase over the previous year. Projections for 1985 are $128.9 million, or a 50.4% increase. Much of that growth is attributed to the cable interconnect.

The interconnect joins cable systems to sell advertising by market rather than by system, offering some or all of the average two minutes an hour ad-supported cable networks allocate for local use.

Interconnects are either "hard" or "soft." In a hard (microwave) interconnect, advertisers need supply only one tape of the commercial. In a soft interconnect, a tape for each system may be required. The soft interconnects send the tapes with simultaneous traffic orders.

Most of the top markets are included in the 55 interconnects in operation in 1984, up from 38 in 1983. One of those new systems was CBS CableConnect system in Chicago. The Chicago interconnect serves 11 of 15 systems in the suburbs. Two of the systems CBS does not serve have no commercial insertion capabilities. Most of the city is not yet wired for cable.

CBS pays each system $2 per subscriber per year for the rights to sell 30% of each system's available ad time. CBS has contracted to sell 40% of available ad time in two years. Like most interconnects, CBS inserts only on the four major ad-supported cable networks: MTV:Music Television, Cable News Network, ESPN and USA Network.

When CBS began the interconnect in April, 1984, CableConnect served 90,000 subscribers. Subscribers now have increased to more than 400,000, representing an $800,000 annual cost for CBS. Use of the interconnect's microwave hardware, owned by Centel Video Path in McCook, Ill., costs CBS about $500,000 a year.

The interconnect keeps all revenues from ad time it sells. Spots go for $50 to $250 for a 30-second commercial, according to Jeffrey Jacobs, general sales manager, CBS CableConnect.

CBS CableConnect sells ad time for 11 of 15 cable systems in the suburbs of Chicago.

Mr. Jacobs expects total revenues this year of about $500,000, equal to an anticipated net loss of about $500,000.

Although it may appear that CBS-TV is competing with its CableConnect subsidiary—both are vying for ad dollars in the Chicago market where 80% of the suburbs are wired and where 71% of all retail sales occur—Mr. Jacobs says this is not so.

"It's a new baby compared to a grandfather," he says. "This is a way for CBS to hedge its bet, like Kellogg putting another cereal on the market, hoping it will take more market share away from another cereal maker."

CableConnect is running an ad campaign through December in the local business press and business pages of local newspapers with headlines reading: "The best way into the best homes" and "Use the power of cable tv in its simplest form." Part of the copy reads: "This enables you to saturate simultaneously more than 400,000 cable households with a single stroke. One order. One tape. One invoice."

In his message to potential advertisers, Mr. Jacobs stresses cable advertising's low cost. "A marketer can cost effectively dominate the medium with lack of clutter." Advertisers also get the benefit of subscriber growth in their contracts. Because subscriber levels are growing, an annual commitment by an advertiser provides greater viewership at the end of the commitment than at the beginning.

"To use cable effectively, advertisers should buy a rotation of spots throughout the day," Mr. Jacobs says. "Since the average unit rate is less than tv, they could buy from 15 to 42 spots and dominate the medium."

Some spot cable is sold nationally for local systems or interconnects. For example, between 10% and 15% of CableConnect's sales are through Cable Networks Inc.

CNI, a New York-based subsidiary of 3M Co., represents interconnects in 20 of the top 25 markets, or 12.47 million of the nation's 38.96 million subscribers.

Five-year-old CNI expects revenues of $14 million this year. The company has built itself by representing other interconnects and, in new markets such as New York and Atlanta, creating its own interconnects.

In Atlanta, CNI spent nearly $400,000 installing insertion equipment in 12 local systems in exchange for five-year representation rights.

Program guides fail to turn on advertisers

By Mark Bittman

It sounds like the answer to an advertiser's prayers—a medium that reaches select, upscale consumers who zap commercials, watch movies on videocassette recorders or tune in commercial-free tv.

And the medium maintains its ad message in these prime households 30 days or more.

Sounds like magic? That's the way the publishers of cable viewer guides promote their products. But despite these attributes, cable guides aren't making it in the competition for national advertising or for cable operator acceptance.

Cable tv audiences should be good advertising targets. They spend a minimum of $10 each month for basic service, and many spend three and four times that amount for premium channels, indicating willingness to use disposable income for entertainment.

And cable operators should be good markets because they all have schedules that need to be communicated.

Yet two national cable guides have folded in the past two years, and only one cable guide has been successful in attracting national advertising. Even that magazine, the Horsham, Pa.-based *Cable Guide*, published by TVSM, has just begun to sell advertising to its fullest potential, executives say.

The digest-size *Cable Guide* next month will introduce a new rate base circulation of 6 million, 70% of which is in the country's top 30 markets. The magazine is distributed by more than 500 cable system operators.

Most publications with that kind of rate base would not have trouble generating advertising, but cable guides are unusual creatures, says Robert Dallas, TVSM's national ad manager.

"We didn't even go after Madison Avenue until we had 3.5 million subscribers," he says. This year, the publication's first actively pursuing national accounts, advertisers include Philip Morris Inc., American Telephone & Telegraph, Eastman Kodak, Mitsubishi, the Magnavox division of North American Philips Corp., General Foods and General Electric. "We'll [illegible] million to $6 million this year in consumer advertising," Mr. Dallas says.

Cable Guide, which charges $49,500 for a four-color inside page, also estimates it will receive about $4 million in pay tv ads and about $1 million in advertising from cable networks.

Cable Guide goes to press every month with 52 pages of color, an amount comparable to *TV Guide*. The magazine also will start using perfect binding next month.

TVSM is by far the most successful of the handful of national publishers. Some of the cable guides have no national or local advertising and many lack the slick look preferred by big advertisers.

Many guides would like to follow *Cable Guide's* lead, but the cable publications business is very competitive.

Premium Channels ***is distributed as a bill stuffer, one of the several forms cable guides take.***

"Most research indicates that there are at least 2½ sources of programing information available to the average cable household," says Lou Pirnik Jr., director of marketing for *TV Host*, a cable guide publisher based in Harrisburg, Pa. These sources include an operator-provided cable guide, *TV Guide* and the local newspaper.

Cable guides come in a variety of forms, including single magazines designed for a national audience such as *Cable Guide*, customized publications designed for specific systems such as *TV Host* and bill stuffers such as the new *Premium Channels* by Premium Channels Publishing Co., Bayshore, N.Y.

An increasing number of guides are sold, rather than given, to subscribers.

"This industry defies ultimate description," Mr. Pirnik says.

TV Host is available in three formats from which the operator can choose, varying in size and editorial content. *TV Host* has a circulation of about 1.3 million. Advertisers can segment their buys by cable system for about $24 per 1,000 circulation. However, the magazine is just beginning to see some national advertising, Mr. Pirnik says.

CableView, a New York-based publisher, has stayed alive by customizing its publications for individual operators.

CableView prints everything: Bill stuffers, a magazine-style guide for Storer Communications in New York (a multiple system operator with 1.5 million cable subscribers nationally) and a four-color, all-glossy extravaganza for Colony Communications, an mso in Providence, R.I., with 213,000 subscribers.

The company publications have a combined circulation of 5.3 million, including bill stuffers with no feature editorial content, and charges about $20 per 1,000 circulation.

Jerry Lyonnaise, Colony's national sales manager, says the magazine "helps us in marketing our premium services" because a top-of-the-page grid displays the premium channel schedule. "And we know subscribers are using it because they're paying for it."

About a quarter of Colony's basic subscribers and more than half of the premium subscribers take the magazine, and Mr. Lyonnaise says Colony is pleased and sticking with it. "We used to mail out four guides to some customers," creating logistical problems and high postage costs. "We are now making some money on the magazine."

That's the goal of every operator and publisher, and most believe the prospects in the field are good.

"Why was Time Inc. ready to spend $110 million?" asks Mr. Dallas, referring to the media conglomerate's *TV-Cable Week*, a weekly that ceased publication last year after losing nearly $50 million in its short life. "They were after a huge market."

The demise of *TV-Cable Week* was a shock to the cable guide industry; the publication had one of the greatest launches in history, with lots of promotion and lots of promise. But the operators didn't buy it, and 18

Mark Bittman is a frequent contributor to Special Report.

Tom Sassos, CNI vp-general manager, sees spot cable adding another dimension to tv advertising. "Cable provides a possibility for the local retailer to be on tv for the first time," he says.

National and local advertisers that traditionally have used tv apply national and local tv marketing principles to cable. But cable has opened what Mr. Sassos calls "the grass-roots level of cable advertising," attracting a third level of advertiser.

For example, instead of buying spot time in the most expensive market in the country, a retail advertiser 80 miles outside Manhattan can use spot cable to reach more localized areas. Mr. Sassos says these local retailers could make up as much as half of the spot cable industry this year.

Even after attracting local retailers, spot cable must develop further to claim more of the ad pie, Mr. Sassos says. "The industry is young and needs time to grow, add insertion capabilities to systems and organize into interconnects."

Spot cable also needs to refine its selling angle, and CNI has a formula that advises media planners how much money they should set aside for spot cable.

Chief component of the so-called CNI budgetary formula is the more upscale cable viewers who watch less broadcast tv.

"If cable viewers represent 30% of the tv viewers in San Francisco, and those viewers are 50% more upscale and over-all broadcast viewership is lower in cable households than elsewhere, then marketers should be filling in the gaps with a larger cable budget," Mr. Sassos says.

"The whole point of the formula is to bring cable into the planning process," according to Karen Klein, CNI marketing manager. Advertisers traditionally have been spending only extra media dollars for cable. Ms. Klein says you "can't build a business with leftover dollars."

Getting media buyers to accept the formula and buy spot cable is "like pulling teeth," Mr. Sassos says.

A new A.C. Nielsen Co. monitoring service, Local Cable Index, will monitor local cable viewership and may help reinforce the spot cable argument.

The service also may help the next step in the cable planning process: Giving buyers demographic information on networks and their availabilities.

Interconnects have another possible growth area: Systems can expand capabilities to insert on other ad-supported networks. But Mr. Sassos says interconnects have to sell the time they have first. Once that time is sold, the choice of networks probably will depend on the market. In Atlanta, The Nashville Network is popular. But in New York, Lifetime may be a better choice.

For now, most interconnects offer the four core ad-supported networks—with some local variation—while other systems install equipment, organize their markets and sell time. With cable viewers representing 6% of the national tv viewing audience, cable reps will be busy as spot sales heat up.

Cable leaders

Top 10 systems

	System	Number of basic subscribers
1.	Tele-Communications, Inc.	3,660,839
2.	American Television and Communications Corp.	2,500,000
3.	Group W Cable	2,393,704
4.	Cox Cable Communications	1,521,987
5.	Storer Cable Communications	1,500,000
6.	Warner Amex Cable Communications, Inc.	1,294,000
7.	Continental Cablevision	1,053,000
8.	Times Mirror Cable Television Inc.	878,340
9.	Newhouse Broadcasting	910,189
10.	United Cable Television	651,000

Source: Subscriber counts are provided by MSOs to International Thomson Communications

Top 10 multiple system operators

	Location	Operator	Number of basic subscribers
1.	San Diego, CA	Cox Cable	256,415
2.	Woodbury (Long Island), NY	Cablevision Systems Development	241,483
3.	Manhattan, NY	ATC	206,900
4.	Florida Division (Orlando/Ormond Beach)	ATC	196,700
5.	San Antonio, TX	Rogers Cablesystems	190,979
6.	Houston, TX	Warner Amex	185,000
7.	East Orange, NJ	MacLean Hunter	172,246
8.	Honolulu, HI	ATC	156,400
9.	Wayne, NJ	UA Cablesystems	138,000
10.	Tulsa, OK	United Cable	134,989

Source: Subscriber counts are provided by MSOs and systems to International Thomson Communications

Top 10 cable advertisers

	Company	Total cable spending ('000)
1.	Procter & Gamble Co.	13,082.5
2.	Anheuser-Busch Cos.	7,954.2
3.	General Foods Corp.	7,560.3
4.	Time Inc.	5,482.1
5.	Nabisco Brands Inc.	5,134.5
6.	Mars Inc.	5,080.0
7.	General Mills	5,035.3
8.	Thompson Medical Co.	4,721.9
9.	Philip Morris Inc.	3,549.2
10.	Ford Motor Co.	3,518.8

Source: Broadcast Advertisers Reports and Publishers Information Bureau. © Copyright 1985

months after the magazine's death, the publication remains an active topic of conversation.

"If *TV-Cable Week* flew," Mr. Pirnik says, "we could have coattailed their efforts. We were excited that Time was making a major commitment to this industry and were hurt that they went belly up in less than six months."

"Their major mistake," Mr. Dallas says, "was that they thought the thing could be consumer-driven and turned their backs on the operator. Their first cover featured a network show!"

Operators were also resistant because they expected the Time Inc.-controlled pay channel Home Box Office to be favored over competing channels.

The cost, about $30 a year, was too high for the operators to bear and too difficult to pass on to subscribers. More successful products, such as Colony's *CableView*, cost subscribers only $1 a month, which includes a small profit for the operator.

Industry leaders weren't very surprised by the October announcement that Atlanta-based Cox Communications, the fourth largest mso with 1.5 million subscribers, was suspending publication of *On Cable* magazine with the December issue.

On Cable was an exception to most cable guides, and its editor and publisher, Peter Funt, struggled to differentiate the 8½-by-11-in. On Cable from other cable guides by paying greater attention to consumer needs and features.

In an interview six months ago, Mr. Funt said, "We don't consider ourselves to be in the cable guide business." Though the magazine functioned as a guide, he said, "We're in the consumer magazine business. Others simply supply printed material to cable operators; they see advertising as gravy, but remain in the marketing support business."

Now Mr. Funt says he was wrong. The cable guide industry isn't "the magazine business, but something else; you have to make it not only with the public and the advertisers, but in this other strange arena, with the cable operators."

On Cable's circulation peaked at nearly 1.5 million, but five years after the magazine's 1980 birth, the competition was getting tougher. "Five years ago," Mr. Funt says, "you could convince operators to spend 50 cents a month for a quality magazine. But the whole mood has changed, and those same people —or, more likely, their successors—want to pay 15 cents, or do without a guide altogether."

TV Host *offers operators a choice of three formats, varying in size and editorial content.*

Also, *On Cable* never broke into the New York market, an area that would have helped solidify its position as a marketing tool, industry sources say.

Competing publishers also say *On Cable*'s consumer-oriented approach alienated operators. For example, *On Cable* panned Cable News Network for firing veteran journalist Daniel Schorr. "This turned off the operators," Mr. Dallas says, "and had little value to the consumer, who doesn't know what ancillary services like CNN are anyway."

Consumers need and want a guide, Mr. Dallas says. "They connect the guide to the service," he says. "Their mental connection is 'This is the cable system telling me what's on this month.' And our research shows that they want more information on the cable service. They're confused, deluged and want to understand what the services are. They want an easy-to-use guide."

TV Host's Mr. Pirnik agrees. "The cable guide is to cable service as a telephone book is to a telephone. It's provided as part of the service, and it encourages subscribers to use the service."

On Cable's other major problem was its cost. Though Mr. Funt was proud of his $5,000 covers and professional copy, the operators, even those selling subscriptions, were tentative about committing to an expensive product. While ad pages were increasing with national advertisers such as R.J. Reynolds Industries, American Express and Citibank, the magazine couldn't sell enough national ads to to break even, Mr. Funt says.

Cable Guide, *distributed by 500 operators, has found some success in attracting national advertisers.*

On Cable charged about $20,000 for a four-color inside page on a rate base of 1.4 million.

"You cannot have a cable guide that isn't profitable," Mr. Pirnik says. "Maybe that's an oversimplification, but a lot of people in this industry have lost track of that. Ultimately, despite Cox's capital, *On Cable* cost too much to produce."

As the shakeout in cable guides continues, both operators and advertisers can expect some bargains, though advertisers will not be likely to find many prospects with large national circulations.

One potentially attractive cable guide strategy is the network that offers advertisers several options from a broad geographic base. The Cable TV Magazine Network in New York, for example, links 16 cable guides and tv publications and has nearly as big a rate base as *Cable Guide*, says sales manager Harvey Oshinsky.

Even the smaller Cable TV Guide Network offers a rate base of 2 million by tying together the guides for many msos. The Cable TV Guide Network charges about $19,000 for a four-color inside page.

Using networks means understanding more than circulation numbers, Mr. Oshinsky says.

"You can really pinpoint by using them [cable guides]; the whole New York area of dominant influence may not be as important to an advertiser as one particular segment of it," and, by advertising in one guide that serves one system, advertisers can hit the desired segment, he says.

National advertisers, however, seem not to have a clear idea of how cable guides can be used in this way, publication executives say. Until they do, cable guides as an advertising market remain more promise than practice.